

Global and Regional Trends

The Context of the Strategic Framework

In addition to building on accomplishments and drawing from lessons learned during the first ten years, the strategic framework of the GMS Program for the next decade should reflect global and regional trends relevant to economic cooperation.

Global Trends

Following are some of the main trends:

Globalization, interdependence and trade liberalization

The globalization of production processes and financial markets, as well as advances in transport and telecommunications technology, have transformed the nature of business practices, making world economies increasingly interdependent. Trade liberalization has progressed considerably,

Production processes and financial markets have globalized, and economies are increasingly interdependent.

Proper economic management and coordination of policies are crucial. as reflected by agreements under the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA). Countries that are slow to adjust to these changes fall behind; firms must respond rapidly to global demands in order to maintain their competitiveness and market position. At the same time, globalization, interdependence and trade liberalization present risks, both political and economic. As illustrated by the 1997 Asian financial and economic crisis, the interdependence of economies can trigger a contagion effect. Proper economic management and coordination of policies therefore become increasingly critical.

Investment trends

The share of foreign direct investment (FDI) by developing countries is now less than 20 percent of the global total, compared to 40 percent in the mid-1990s. In order to compete for FDI, GMS countries will have to adjust to new investment determinants, which emphasize the domestic policy framework, progress in transport, communications and information technologies, the management and organizational techniques of firms, and the presence of industrial clusters. An abundance of natural resources and low-wage labor is no longer enough. The ability of the GMS countries to attract FDI will depend significantly on the extent to which they can provide complementary resources, adequate infrastructure, competent suppliers, and institutions that harness technology effectively.

Global supply, production and distribution chains

Another trend is the intensification of networking by Trans National Corporations (TNCs) as part of global supply, production, and distribution

chains. These chains are seen as a critical element of modern business operations. Through them, domestic firms acquire better knowledge, upgraded skills, advanced technology and, at times, financing. Foreign firms, on the other hand, benefit from reduced costs and enhanced access to human and other resources. The increasing importance of outsourcing is also fueling the rapid growth of global business chains. As competition intensifies, firms are increasingly focusing on their 'core competencies' and outsourcing the rest. GMS governments have an important role in helping domestic firms participate in these global business chains. For example, they can provide information services, conduct training programs, promote industry associations, and exempt exporters from value-added tax.

Shortened product life cycles and advances in IT are providing both pressure and tools for regional cooperation.

Production and technology

Two of the most important trends in production and technology are the shortening life cycles of new products, and rapid advances in information technology (IT). These developments are providing both pressure and tools for regional cooperation. Although many developing countries are endeavoring to embrace IT, the speed with which they can absorb it is typically slower than the rate at which new technologies are being developed. Even basic manufacturing is becoming more technology-oriented in order to improve efficiency and product quality for more demanding consumers.

Regional Trends

PRC and Within the region, the pertinent trends are:

ASEAN **Expansion of ASEAN**
are expected
to considerably
expand
trade in
the region.

The expanded membership of ASEAN presents opportunities and challenges for GMS countries, especially the new members – Cambodia, Lao PDR, Myanmar, and Viet Nam. It also poses challenges for the Association of Southeast Asian Nations (ASEAN) itself, as it must address the issues associated with the emergence of a two-tier system and the consequent difficulties of reaching consensus. The possibility of ASEAN plus three [Republic Korea, Japan and the People’s Republic of China (PRC)] could fundamentally redefine the role of ASEAN, with important implications for the GMS Program. AFTA and the new WTO round, and the move for an ASEAN/PRC free trade zone, will result in considerable expansion of trade. GMS countries should be able to take full advantage of this expansion, with the resulting economies of scale, possibilities for resource sharing, and other initiatives to strengthen productivity and product quality. The reduction of physical and non-physical barriers to trade and resource sharing will be important in meeting competition.

PRC’s WTO membership and growing regional role

The PRC has succeeded in its 15-year quest for WTO membership. This makes the PRC’s economy increasingly important to the region. The GMS countries that are already members or expect to be admitted to the WTO will be able to gain greater access to the PRC market. Other GMS members

will need to increase their competitiveness and explore complementary linkages with the PRC.

Newly emerging markets in South Asia

Another key regional development is the growing importance of South Asian economies. Erstwhile import substitution-oriented, many of these economies are now opening to external markets, making South Asia a potentially new market for GMS countries. However, it is also a competitor for labor-intensive industry. South Asia – India in particular – has important advantages, including advanced technology and a large number of university-educated people. GMS countries will need to forge supply, production and distribution chains with South Asia. The GMS countries will increasingly find themselves a veritable land bridge linking the PRC, Southeast Asia, and South Asia.

South Asia presents a potentially new market for GMS countries.